

Stewardship Guidance Presentation

Project by:

The Stewardship Asset
Guidance Workgroup

Sponsored by:

FASAB's Accounting and
Auditing Policy Committee

Origin of Project

- 96 Dry Run over Consolidation
- Interior's Early Implementation Experience
- Interpretive Guidance Needed
- Project Kick-Off Meeting
 - Priority Issues

Process For Project

- Workgroup
- Review Group
- GAO's Role as Facilitator
- Work Group's Purview
 - Stewardship Land
 - Heritage Assets
- Related JFMIP Effort

Materiality Paper

- Why worry about materiality?
- How do you apply materiality to items measured in physical units instead of dollars?
- Importance of Subjective Judgement

Materiality Paper (continued)

Definition of Materiality

“ Materiality represents the magnitude of an omission or misstatement of an item in a financial report that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item.”

Materiality Paper (continued)

- Concluded Definition requires interpretive guidance
- Definition needed for terms such as “Reasonable Person”
- Three Criteria when determining Materiality
- Focus Questions and Related Decision Charts
- Paper Moves from Subjective to Objective
- Paper and Tools

Figure 1.1. Determination of Materiality for Reporting Stewardship Assets

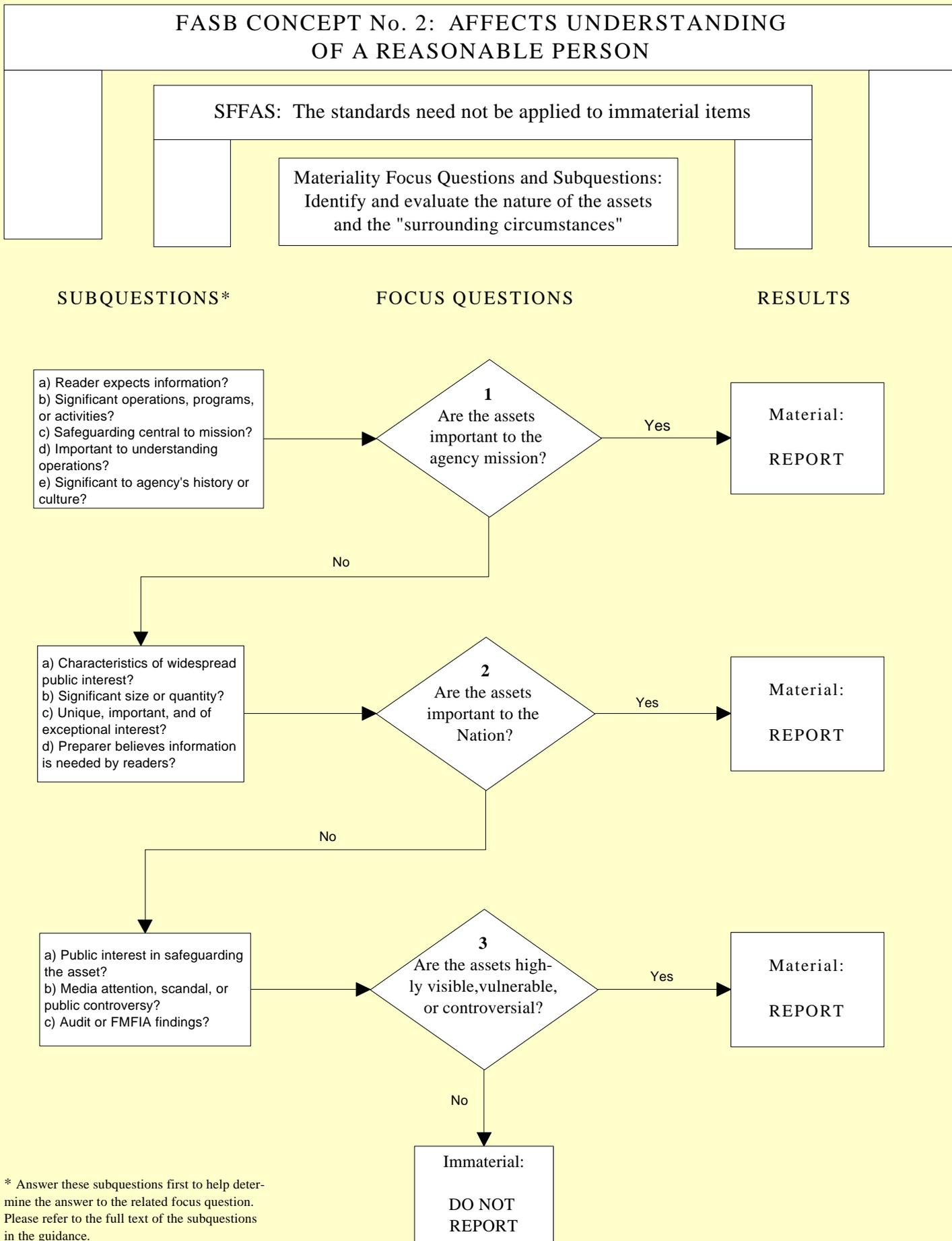


Figure 1.2. Examples of How to Apply the Determination of Materiality Chart for Reporting Stewardship Assets

Focus Questions and Subquestions Please consider all the sub-questions to determine the answer for each focus question. A "yes" or "no" answer to a single subquestion does not automatically mean that the related focus question should be answered yes or no. When evaluating the answers, certain subquestions may be given greater or lesser weight than others.		Type of Stewardship Assets				
		The Declaration of Independence, Held by National Archives	Military Artifacts Held by DOD	18th Century Household Items Held by NPS	Rock and Mineral Specimens on Display at USGS Headquarters	United Nations Biosphere Reserves Managed by BLM
1. Are the assets important to the agency mission?		Y	N	Y	N	N
	a) Reader expects information?	n	n	n	n	n
	b) Significant operations, programs, or activities?	n	n	n	n	n
	c) Safeguarding central to mission?	y	n	y	n	y
	d) Important to understanding operations?	n	n	n	n	n
	e) Significant to agency's history or culture?	y	y	y	n	n
2. Are the assets important to the nation?		Y	Y	N	N	N
	a) Characteristics of widespread, public interest?	y	y	n	n	n
	b) Significant size or quantity?	n	y	y	n	n
	c) Unique, important, and of exceptional interest?	y	y	n	n	n
	d) Preparer believes information is needed by readers?	n	y	y	n	n
3. Are the assets highly visible, vulnerable, or controversial?		Y	N	N	N	N
	a) Public interest in safeguarding the asset?	y	y	n	n	n
	b) Media attention or public controversy?	n	n	n	n	n
	c) Audit or FMFIA findings?	n	n	n	n	n
SUMMARY OF ANSWERS (Q1, Q2, Q3):		Y, Y, Y	N, Y, N	Y, Y, N	N, N, N	N, N, N, but of interest to knowledgeable stakeholders
CONCLUSIONS: Note: A "yes" answer to one or more of the focus questions indicates that the assets are material and should be reported.		Material: Report	Material: Report	Material: Report	Immaterial: Do not report	Immaterial: However, Mgmt. may elect to report

Materiality Paper (continued)

- AICPA Comment
- Threshold Chart
- Term of Art vs. New Language
- Suggestions from AAPC

Figure 1.3. Materiality Threshold Chart for Stewardship Assets

<p>MATERIAL</p>	<p>Information that would probably change or influence the understanding of a reasonable person, in light of the surrounding circumstances, if it were omitted or misstated.</p> <p>The auditor must test information in the material zone because material items are important to fair presentation of the Principal Statements and the Supplementary Stewardship Report, when read together.</p>
<p> THRESHOLD </p>	
<p>LESS THAN MATERIAL</p>	<p>Information not reasonably expected to change or influence the understanding of a reasonable person, in light of the surrounding circumstances, if it were omitted or misstated.</p> <p>The auditor need not test stewardship asset information in this zone because the disclosures are considered to be less than critical to fair presentation of the Principal Statements and the Supplementary Stewardship Report, when read together.</p>
<p>MANAGEMENT PREROGATIVE/ EXTRA INFORMATION NOT REQUIRED BY ACCOUNTING STANDARDS</p>	<p>Information exceeding accounting standard requirements with details and particulars that management may elect to report because they may be of interest to knowledgeable stakeholders. However, this information is not required because it is not reasonably expected to change or influence the understanding of a reasonable person, in light of the surrounding circumstances, if it were omitted or misstated.</p> <p>The auditor must make a decision whether to test stewardship asset information in this zone because its disclosure, although possibly informative to some, may be less than critical to fair presentation of the Principal Statements and the Supplementary Stewardship Report, when read together.</p>

Condition Paper

- SFFAS 8 is Flexible re: Reporting Condition
- Traditional Measures and Definition Not Always the Most Meaningful
- Glossary to Standards Defines as: **“The physical state of an asset”**

Condition Paper (Continued)

- **Explanatory Text**

"The condition of an asset is based on an evaluation of the **physical status/state** of an asset, its **ability to perform** as planned, and its continued usefulness... The condition of a long-lived asset is affected by its durability, the quality of its design and construction, its use, the adequacy of maintenance that has been performed, and many other factors..."

Condition Paper (Continued)

- The Condition of the **Liberty Bell** is **CRACKED**
- The **Declaration Of Independence** is **YELLOWED**

Condition Paper (Continued)

- **How Management Manages:**
 - Nature of Asset
 - Purpose of Asset
 - Intended Use of Asset

Condition Paper (Continued)

- "Safeguarded" is defined by the Condition paper as:

Protected against waste, loss, and misuse; managed consistent with their intended use in accordance with federal laws and regulations ; and not materially degraded while under government care."

Condition Paper (Continued)

- **Deriving Criteria**
 - Agency Mandates
 - Safeguarding

Figure 2. Focus Questions on Information Sources for Reporting Condition

1. Is assessing condition done as part of the normal management role?
2. Is condition information (other than basic information about safeguarding) needed to manage the assets?
3. Do existing systems provide condition information?
3. If existing systems do not provide needed condition information, can it be obtained from knowledgeable staff who manage the assets?

Figure 1. Focus Questions on Sources of Criteria for Reporting Condition

1. Does the agency mission provide criteria for measuring condition?
2. Do laws and regulations prescribe purposes or goals for managing that indicate criteria for measuring condition?
3. Does agency practice, philosophy, or policy indicate criteria for measuring condition?
4. Do technically developed standards or norms related to the assets provide criteria for measuring condition?
5. Does agency budget or appropriation language indicate criteria for measuring Condition?

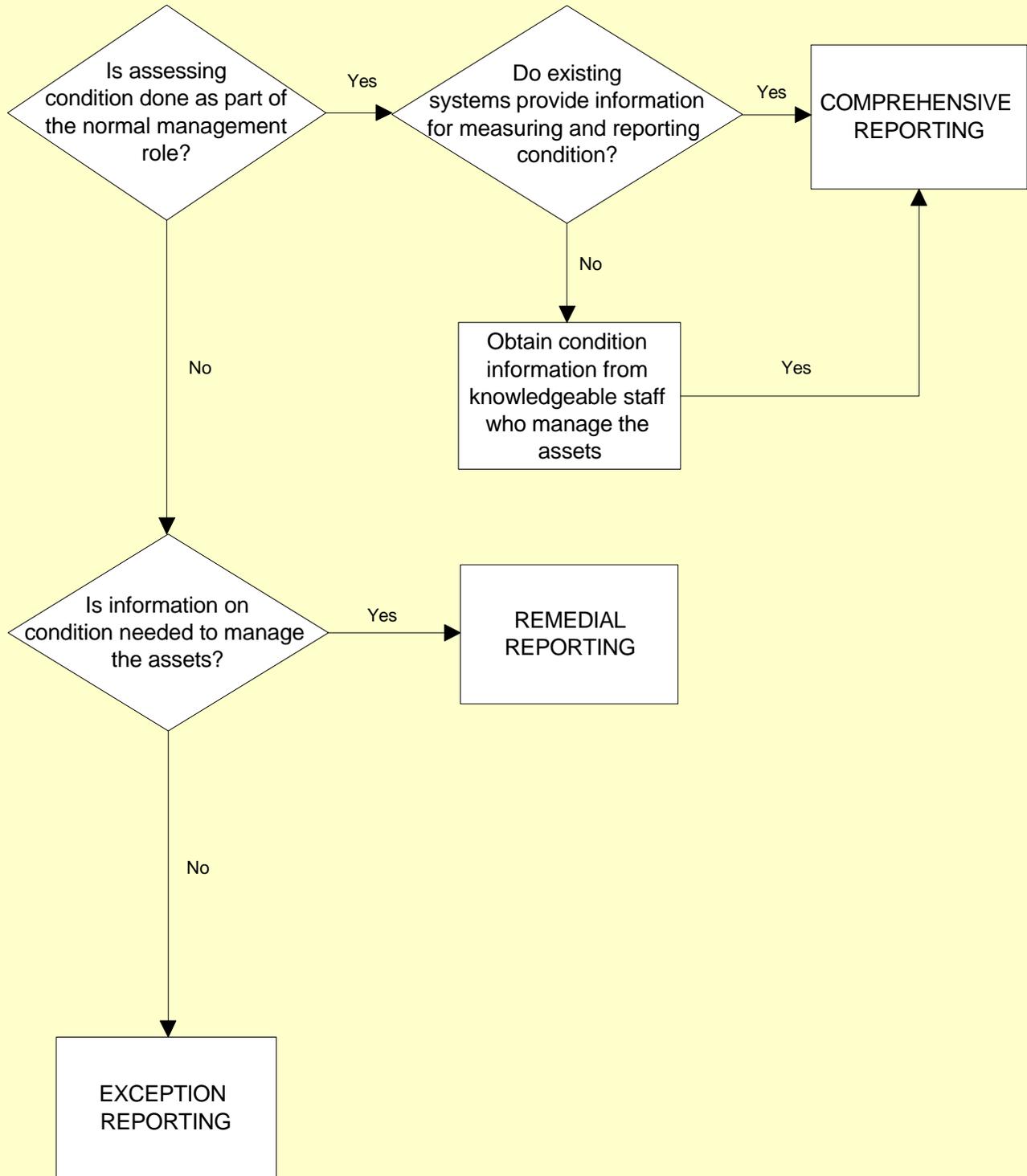
EXAMPLES OF CRITERIA DERIVED FROM VARIOUS MANDATES,
RELATED ASSERTIONS, AND PROCEDURES TO ACHIEVE AUDITOR'S ASSURANCE

Source or Indicator of Criteria	Derived Criteria	Management Assertions About Condition	Procedures to Achieve Auditor's Assurance	
			General Approach	Sample Steps (not all-inclusive)
BLM's mission is to "...sustain the health, diversity, and productivity of the public land for the use and enjoyment of present and future generations."	The potential natural plant community is the criteria against which the health of rangeland is evaluated.	The percentage of BLM's rangeland in relation to the natural plant community is categorized as follows: 4% is potential natural community (excellent), 32% is late seral (good), 37% is mid seral (fair), 13% is early seral (poor), and 14% is unclassified.	Inquire with management about the process used to develop criteria for measuring condition and the written assertions about condition. Reperform steps taken by management to ensure the accuracy of the assertions. (For example, check reasonableness of criteria, and trace key facts and figures to supporting documentation). Conclude as to the reliability of management's assertions about condition.	Examine documentation supporting categorization of acreage. Recalculate percentages
FWS' mission is to "conserve, protect, and enhance fish and wildlife and their habitats for the continuing benefit of the American people."	The ability of FWS land to provide the variety of habitats needed by diverse wildlife is the criteria used to evaluate the condition of the land.	While some individual units can be improved, the condition of FWS lands as a whole is sufficient to support the mission of the Service.		Examine documentation showing that most FWS lands provide the desired habitats.
SFFAS No. 6 states that "Heritage assets are generally expected to be preserved indefinitely" and "It is expected that they will be maintained in reasonable repair and that there will be no diminution of their usefulness over time."	Acceptable condition for BLM museum collections is defined as "safeguarded" which means that collections are in secure locations, managed consistent with their intended uses, and their condition has not materially degraded.	The condition of museum collections in three BLM facilities and approximately 189 non-federal is acceptable (safeguarded).		For sample of facilities (1) perform physical inspection, and/or (2) examine documentation supporting the assertion that collections are safeguarded
An NPS checklist for managing museums contains standards for environment, security, fire protection, housekeeping, and planning for museum collections.	Status of museum exhibits and storage is assessed against professional standards for preservation and protection.	61 percent of the conditions in park museum collections meet these professional standards.		For selected locations categorized as meeting standards, apply check list to confirm that standards are met.
The Library of Congress' security plan includes physical security standards and defines the threat to the library's collections.	Library collections should be safeguarded. A low risk environment for the collections must be maintained, including zero tolerance for theft and mutilation.	Library collections are safeguarded and basic controls are in place.		Review security plan, related controls, and documentation showing that controls are implemented. Test selected controls.

Condition Paper (Continued)

- **Three Types of Reporting:**
 - Comprehensive
 - Remedial
 - Exception

Figure 3. Relationship of Condition Reporting Approaches



Condition Paper (Continued)

- Issues related to the definition of Stewardship Land
 - Literal interpretation
 - Holistic View
- Relationship of Condition Reporting to Deferred Maintenance Reporting

Identification, Categorization, and Units of Measure Paper

- Compliance with SFAS No. 8
 - Broad latitude
 - Basic categories and report format
- Identification Section
- Categorization Section
- Units of Measurement Section
 - physical units
 - discrete units
 - units of measure
 - selection of physical units

Auditing Paper

- **Evolution of Auditing requirements**
 - FASAB's basis for conclusion commented on desired audit level greater than RSI (AU 558)
 - Originally 98-08 erroneously called for using AU standards for this **NONFINANCIAL DATA**
 - 98-08 amended to use certain procedures (AU 558.07)
 - FASAB revisiting Deferred Maintenance as a footnote as well as RSSI vs RSI

Auditing Paper (continued)

- **LIKELY** Evolution of Auditing requirements is to use the **ATTESTATION STANDARDS**

Auditing Paper (continued)

- Attestation over a Written Management Assertion
- The Assertion is:
 - Measurable by a Recognized Body's Criteria (SFFAS 8)
 - Reasonably Estimable against Recognized Body's Criteria (SFFAS 8)
- Attestation Services are:
“analytical, critical investigative and concerned with the basis and support for the assertions.”

Auditing Paper (continued)

- Guide Provides:
 - Conceptual Framework
 - Model Audit program
 - Internal Control Questionnaire
 - Model Attestation Report
- What is a good audit trail?
- How does management establish controls over Stewardship Asset reporting?

Auditing Paper (continued)

- Financial Statement Assertions related to management's representations about stewardship assets
- Implied vs. Declared Assertions